A Work Project, presented as part of the requirements for the Award of a Master Degree in Management from the NOVA – School of Business and Economics

Expansion Business Plan to HUB,S.A:

HUB and AKTION – Different Concepts, the Same Commitment.

Miguel Rui Mesquita d'Oliveira, 2758

A Project carried out on the Master in Management Program, under the supervision of:

Professor Carlos Alves Marques

17th December of 2016

ABSTRACT

This Business Plan aims to study, analyse and conclude about the feasibility of HUB,S.A.'s intended strategy for the development of a hostel chain. In one side there is HUB, a brand associated to urban areas and characterized by having big units (between 125 and 200 beds) that targets not only groups of youth travellers but also the Student Housing segment. On the other side there is AKTION, a brand associated to rural areas where Active Tourism plays an important role and that functions in a franchise system basis; an idea that is still not developed in the Hostels Market.

Keywords: Franchise, Hostel, Student Housing, Active Tourism

INDEX

1. Executive summary……………………………………………………………………1

2. Presentation of HUB,S.A…………………………………………………………………1

3. Market Analysis

3.1. Definition of Hostel………………………………………………………....................3

3.2. Porter's 6 Forces…………………………………………………………………...3

3.3. Context and Market trends

3.3.1. The Tourism worldwide…………………………………………………….5

3.3.2. The Tourism in Portugal…………………………………………………….6

3.3.3. The Tourism and hostels…………………………………………………….7

3.3.4. The Tourism and HUB,S.A.'s target market.

3.3.4.1. Youth Travellers and Backpackers…………………………………………7

3.3.4.2. Groups……………………………………………………………………..8

3.3.4.3. Nature and Sports Lovers………………………………………………….9

4. Competition analysis

4.1. Direct and Indirect Competition…………………………………………………..10

4.2. Types of hostels…………………………………………………………………….10

4.3. Benchmarking with competition and international examples…………………………...12

4.4. SWOT Analysis and Competitive advantage………………………………………..15

5. Strategy

5.1. Man – Human Resources…………………………………………………………..15

5.2. Material and Machines……………………………………………………………..16

5.3. Money ……………………………………………………………...............16

5.4. Method…………………………………………………………………...............17

5.5. Measurement……………………………………………………………….............17

6. Marketing

6.1. Market research – Survey to students……………………………….................................18

6.2. STP……………………………………………………………………………...19

6.3. Place…………………………………………………………………………….20

6.4. Promotion……………………………………………………………………….20

6.5. Product………………………………………………………………………….21

6.6. Price…………………………………………………………………………….22

7. Financials

7.1. Revenues………………………………………………………………………..23

7.2. Costs……………………………………………………………………………24

7.3. Important indicators (NPV, ROI)…………………………………………………...25

8. Conclusion and Limitations……………………………………………………………….25

Appendices Index:

- Appendix 1: Performance of Groups in Hub New Lisbon Hostel in 2016;
- Appendix 2: Basic Profile of Nature Travel Consumers;
- Appendix 3: Benchmarking Costa da Caparica;
- Appendix 4: Benchmarking Évora;
- Appendix 5: Benchmarking Carcavelos;
- Appendix 6: Benchmarking Franchise;
- Appendix 7: SWOT Analysis;
- Appendix 8: Sample of Procedures Manual
- Appendix 9: Survey's Results
- Appendix 10: Aktion's Facebook Page;
- Appendix 11: Hub's Facebook Page;
- Appendix 12: Aktion's Design;
- Appendix 13: Hub's Design;
- Appendix 14: Financials

1. Executive Summary:

HUB,S.A. operates in the Travel & Tourism industry, more specifically, in the Accommodation sector. Hostels HUB's objective in the long term is to become one of the biggest (in number of units but also in financial results) chains of hostels in the Iberian Peninsula. In order to fulfil the expectations of the company, it was developed an Expansion Business Plan to a timeline of 10 years. The Business Plan starts with a description of the company followed by its specific goals, vision, mission and values. After that, it is presented an external analysis using the Porter's Six Forces tool and SWOT Analysis. There was also made an analysis to the demand side through external market research and an internal survey. Consequently, it was proposed a strategy to the company, supported by the Marketing (Marketing Mix, Segmentation, Targeting and Positioning) and the Financials. At the end, it was concluded about the feasibility of the project and there were given some advices to the future of HUB's life.

2. Presentation of HUB, S.A.

HUB,S.A.'s business is to provide low budget accommodation to guests and enhance the creation of unforgettable social, cultural and physical experiences during their stay at each unit of its chain. The first internal rule of HUB, S.A.'s teams is to focus always in the individuality. Each guest is unique and has different personalities, requirements and expectations and as such, this is the only way to have success in the business and be able to achieve objectives with higher scale. The long term objectives of Hostels Hub are: - Develop 2.000 beds in the Iberian Peninsula in a timeline of 10 years; - Have physical presence in 15 locations (10 franchises and 5 with internal investment) in 10 years; - Create two different brands: HUB (urban areas) and AKTION (rural areas and activity-based), that share know-how and management teams; - Be recognized as one of the most important chain of hostels operating in Europe.

To achieve these goals, there are some common values that should drive all the actions of HUB's employees and employers. The values are three main: **Humbleness** – Being humble towards the colleagues of work and the supervisors is essential to be constantly improving. The motto "the client is always right" (excepting extreme situations) perfectly fits in the company's culture; **Unity** - All the collaborators of Hostels Hub have to bear in mind that the only way to achieve the goals of the company is if everybody works for the same purpose; **Be better**– “Be better than yourself” it is other motto that should always be present. Be better individually and as a group is the only way to improve in comparison with the competitors.

The HUB,S.A. society is divided in two brands. Each brand has a different approach to the market, which results in the offer of different types of experiences and different target markets. However, the two brands share between themselves the same management team and the know-how associated with the business. The first and only unit in operation is situated in Lisbon (between Príncipe Real and Bairro Alto) and is the largest hostel in Lisbon, offering 163 beds. The Hub New Lisbon Hostel has a big focus in groups (mainly Erasmus from other cities and Finalist trips) that come to Lisbon in the weekends and stay there for two or three nights. In the future, the idea of HUB,S.A.’s owners is to open more “HUBs” in different locations. There will open another HUB unit in Lisbon (close to Picoas) and in order to avoid cannibalism it doesn’t make sense to open a third unit. The seasonality is high in this market so the possibility of mitigating this effect with the offering of student housing is also studied in this Business Plan. Taking this in consideration, the places chosen to be analysed were Costa da Caparica, Évora and Carcavelos.

On the other side of the intended strategy to HUB, S.A. there is the AKTION brand, that has units with fewer beds (up to 80 beds). The fixed costs gain higher importance and the local connections become crucial. In this side of the strategy it was decided to study a franchise system, due to the large amount of people with interest in the market but at the same time with low experience in it allied with the will of HUB,S.A. to grow fast and with less risk.

Although the two brands are different from each other in the strategy adopted and in the challenges that might be faced, both will play an important role in the overall plan to expand the business in the next years. As such, during the business plan both the HUB and the AKTION brands will be taken in consideration and analysed in all the different variables.

3. Market Analysis

3.1. Definition of Hostel

The accommodation sector is inside the Travel & Tourism industry and is divided into several sub-sectors such as Hotel establishments, Resorts, Holiday Villages, Campsites and Local Accommodation. The last sub-sector can also be divided in different concepts such as rental of apartments, housing, lodging and hostels. According the Portuguese Decree-Law nº 128/2014, of 29th of August, to be defined as a hostel the predominant typology of rooms has to be dormitories. Typically, the hostels have common areas where the guests gather and socialize among them. The hostels are associated with places where meeting people (through activities, tours, events inside the hostel, etc.) is considered to be a common practice.

In Portugal, this concept started in 1958 with the foundation of "Pousadas da Juventude", a chain of local accommodations spread through the country that used to be financed by the Portuguese State. In the last years, the poor financial conditions of "Pousadas da Juventude" led to changes in the strategy and nowadays there are 10 units that were submitted to public tenders, which created really good results so far.

In the beginning of the 2010's it occurred a boom in this sector and nowadays there are more than 400 hostels in Portugal, with the tendency to increase even more.

3.2. Porter's 6 forces

In order to understand the potential of the industry and its main handicaps, it was necessary to perform a Porter's 6 forces analysis taking into account the Hostel's Market in Portugal: - **Threat of new entrants – HIGH:** The regulations and laws are easy to understand. Also, the investment needed is relatively low when compared to other businesses because usually hostels are rebuilt from abandoned buildings. In addition to this, the recent development of the industry in Portugal and the uncountable number of positive indicators let preview that the investment in the Tourism (particularly in the Accommodation sector) will keep increasing; - **Bargaining power of suppliers – MEDIUM:** In the hostel sector, the amount of suppliers is very big. There are many different types of suppliers to consider and each one of them has their own characteristics and demands. As an overall view, it could be said that the bargaining power of suppliers is low. The number of suppliers operating in the majority of the business is considerable, taking into account the size of the market. This makes possible for the hostels to have a higher margin to bargain since there is always another suppliers' offer to use as leverage. However, there are some specific areas where is much more difficult to negotiate better deals. One example is the suppliers of softwares – In the Accommodation sector the majority of the softwares are just customizable to hotels. We can also consider other areas such as products for breakfast where Nestlé almost has the monopoly. In these types of markets it is very difficult to negotiate and the bargaining power of the suppliers increases. In both examples, most of the time, the revenues that result from negotiating and agree on different deals don't worth the time and money that is spent in trying to customize the services. - **Bargaining power of customers – MEDIUM:** In general, the bargaining power of customers is high. Due to big supply in this market, the customers have many options and choose just the one that satisfies the most. However, in some specific situations (when guests arrive late or in high season when accommodations are full) it is easy for the hostel to gain bargaining power and charge higher prices. If we take aside the pricing factor, the bargaining power of the customers increases. Guests are the most important influencers in the business so they are always very well treated, gaining bargaining power when they have any issue or problem with the stay; - **Threat of substitutes – HIGH:** The amount of alternatives to the hostels might be one of the most discouraging forces of the business. There is a large number of alternatives to stay at a hostel and each one has its own advantages and disadvantages. The most obvious are the Hotels, where customers gain privacy, safety, comfort and cleanliness but lose the friendly and familiar atmosphere of a hostel; the short term rental apartments are also an alternative to hostels and the variety in this part of the sector makes it really appellative. The range of the budget to use this type of service is really big and customers can always feel like locals and stay in places 100% personalized and customizable; in addition to these two examples, there are other alternatives such as Camping and couchsurfing; - **Bargaining power of complementors – HIGH:** The complementors to the hostel business are all the activities/services/products that can be provided by the hostel to the guest, usually for more affordable prices. Some examples of these complementors are: Transfers, meals, events, festivals, entrance in museums, concerts, tours, sports, etc. Although the customers value the quantity and quality of the activities this is not one of the crucial aspects of the decision process. As a consequence of that and given the large amount of companies making exactly the same offer, the hostels have some leverage over the activity suppliers and are able to get the best deals; - **Competitive rivalry – HIGH:** In Portugal the standards are now very high and it is not admitted less than that. In addition to the quality of the hostels, the number of units is another factor creating very intense competitiveness in Portugal. Taking into account the market size, the customers have a lot of possibilities to be accommodated. There are two main online channels to make reservations and if someone wants to book a hostel in Lisbon through Booking.com it will have to choose among 107 different hostels and among 164 hostels if it is done through Hostelworld.com. In Porto, for example, there are 92 hostels registered in Hostelworld.com and 40 hostels registered in Booking.com. The importance of these numbers and the impact they have in the competitive rivalry is even easier to understand if, when thinking about cities like Barcelona, Paris and London, there are 196, 194 and 194 hostels registered in Hostelworld.com, respectively.

3.3. Context and Market trends

3.3.1.The tourism worldwide

Between the 16th century and the 18th century to travel started to be considered "as an art" and as a "search for amusement and enjoyment that was an end in itself" with the existence of the Grand Tour, a trip through other countries that started to be a common practice among young nobles at that time (Gyr, 2010). In the 19th century it was created a new concept of organised "group holidays offering an all-inclusive price" (Cook, 1840) and so it started the commercialisation of mass tourism. From then, this activity never stopped to grow in a consistent way and nowadays is considered to be one the most important industries in the world's economy, equalling the volume of businesses such as oil exports, food products or automobiles (United Nations World Tourism Organization [UNWTO], 2016). Nowadays, the Tourism Industry represents 10% of the world's GDP and 7% of the world's exports, having an absolute value of US$1.5 Trillion in 2016. The pace of the Tourism's growth is fast in the last years, with 2015 representing the "sixth consecutive year of robust growth". In 2015, the number of arrivals grew by 4,6% and it was expected to grow 4.5% in 2016. By 2030, the Tourism is expected to reach the 1.8 billions, evidencing that this industry will keep attracting investment and still has a lot of potential that is unexplored (UNWTO, 2016).

3.3.2. Tourism in Portugal

Since 2002 that the most important Tourism indicators have had ups and downs, but in the last years (starting in 2009) the data shows a robust growth until today. In 2015, most of the indicators have beaten absolute records (Instituto Nacional de Estatística [INE], 2016). An example of this is the impact in the economy: in 2015 the tourism represented 4.3% of Portugal's GDP, contrasting with the poor 2.4% in 2009. In comparative terms with the other countries Portugal is the 9th country in Europe and the 26th with the highest revenues and this amount represents 2,5% of the total world's revenues. Although all the touristic destinations compete among themselves there are some destinations that are considered as direct competition to Portugal, namely, the Mediterranean countries. In 2013, Portugal was in the 6th place among these countries. Between 2007 and 2013 the growth was 24,3%, way above the average of the Mediterranean countries that was 7,2%. Despite this improvement, in almost all the indicators, the seasonality factor is still very worrying, with an increase of 4,2% between 2008 and 2014 (from 36,7% to 40,9%) (INE, 2016).

In the last years, “all the predictions of WTCC (World Travel & Tourism Council) show a positive growth, not just in the GDP, employments or exports but also in investment” (Associação de Hotelaria, Restauração e Similares de Portugal [AHRESP], 2016).

3.3.3. The tourism and hostels

The boom of the (registered) hostels in Portugal started with the change in the legislation that recognized the Hostels as a source of Local Accommodation. In October 2014 there were 9.729 units registered. In the following year there were registered 11.215 units. The legal issues are still a problem in this sector since the number of properties in Airbnb is 40% higher than the registered units of Local Accommodation (Associação do Alojamento Local de Portugal [ALEP], 2016).

Besides the fact that the hostel concept and the type of experience provided is very well defined, as any other business, it is necessary to adapt. Nowadays, “hostels are trying to balance the sense of community and good atmosphere with a more stylish and fancy side” (HVS, 2014). In the last years it was also noticed a shift in the typology scheme of the hostels, with a large percentage of them investing more in private rooms while keeping the majority of beds in dormitories. It starts to be visible a distinction between hostels just for young people (also cheap) and hostels that differentiate by the price.

3.3.4. HUB’s and AKTION’s strategy in Tourism.

3.3.4.1.Youth Travellers and Backpackers

After analyzing how Tourism is evolving in the world, in Portugal and specifically in Hostels is now important to understand if the strategy that HUB and AKTION will try to put in place makes sense. In order to do that, it is necessary to compare the strategy proposed by HUB,S.A. with the present context of tourism and with the way it is taking. The HUB brand focuses in developing big units (over 150 beds) in urban areas and the main segments that makes sense to target are the traditional hostels lovers (Backpackers and Youth Travellers) but also groups of people (associations, groups of Erasmus, finalists trips, bachelor parties, events and others). Regarding the AKTION brand, there are other types of travelers that should be added: the nature and sports lovers gain importance in the strategy that AKTION wants to implement.

Nowadays the backpackers and youth travelers are a very attractive segment of the market. With the development of low cost airlines in Europe (Ryanair, Easyjet, Wizzair, Transavia, Germanwings, etc.) the segments of the markets with less budgets had the perfect opportunity to travel more. As a consequence of that, the demand for accommodation in the center of the cities (close to the airports that receive the low cost airlines) increased a lot. The young travelers are tourists aged between 16 and 24 years old. They represent 12% of the population in Europe and 17% of the population in the BRICS. Since they do not have the resources to travel in a regular basis, each trip has more destinations and has a higher budget involved in it. In 2015, Portugal was the 12th country to receive most backpackers in the world (Youth Travel Matters [YTM], 2014)

This segment of the Tourism Industry is characterized by the collection of experiences. In their trips, they want to embrace the culture of the destination and immerse in the local community. In average, they are less sensitive to negative aspects such as economic problems or political instability. (UNWTO, 2014). It is predicted that in 2020 there will be 320 millions of youth travelers in the world, representing an increase of 5% per year. For 80% of the youth travelers, the reservations and choice of the accommodation is done through the Internet (YTM, 2014). There are other important characteristics that should be taken into account: - There is an increase in the professionalization of the Youth Travel Tourism; - There is a greater number of girls traveling; - The importance of the Internet will increase even more and more; - They are very open to discounts and promotions.

3.3.4.2. Groups

Besides the first segment analyzed, there are the other two that should also be put in the context of the development of tourism in order to understand if they will contribute to the success of the company. The second relevant segment for the HUB's strategy is the Groups (Groups of Erasmus, Finalists' Trips, Teams of Sport Events, Bachelor Parties, Events, etc.). It is consensual that Portugal offers a really good experience in what concerns the stays at hostels. In the ranking of hostelworld (*Hoscars*) for 2016 there are two Portuguese hostels appearing in the top 10 of small hostels (Yes! Porto Hostel and Gallery Hostel Porto). In the ranking for medium hostels (between 75 and 150 beds) there are six Portuguese hostels in the top 10 and in the ranking for large hostels there is one. Portugal is not represented in the ranking for extra large hostels. These numbers suggest that Portugal provides the experience in hostels with high quality but also that the quantity and quality of the Portuguese hostels decrease as the number of beds per unit increases. In addition to these numbers it is also easy to understand that the environment and life associated to the hostels perfectly fits in the type of experience that a person looks for when travelling with Erasmus Trips, Bachelor Parties, Friends, Finalists' Trips and so on.

In 2016, the Hub New Lisbon Hostel received a total of 70 groups, which make a total of 7.820 nights spent at the hostel. Assuming that for a person belonging to a group one night costs 12€, these numbers are traduced in revenues of 93.840€ in the first year. (*Appendix 1*)

3.3.4.3. Nature and Sports Lovers

This segment is very important to AKTION's brand. In the last few decades it was broken the paradigm that the Tourism is the search of experiences to rest. Nowadays the Tourism is also the search for adventure and physical and mental challenges. Conciliate physical activities with the choice of the destination is now a crucial factor in the Tourism of today. The goal is now to live the journey at the highest level, taking the most quality and quantity of remarkable experiences as possible. There are some differentiating characteristics of this segment: - Stays more nights and spends more money (1058€ against 852€) (Costa, 2016); - The reservations are done through the internet and with less time in advance; - The demand is less elastic when the supply in aligned with the expectations; - The higher demand for these activities associated with the increase of the tourism results in a strong connection between the practice of sports and the Economy (Carvalhinho, Bento, & Rosa, 2013). From all the nature lovers, AKTION wants to focus in the Hard Nature Consumers that look for sports such as Surf, Bodyboard, Hiking, etc. Usually this type of consumers look for accommodation in places that are integrated in the nature, with bed and breakfast and like to travel alone or in groups of friends. (Vieira, 2006). (*Appendix 2*)

4. Competition analysis

4.1. Direct and Indirect Competition

The Hostel business takes part of one of the most important economic activities in the world, the tourism. Included in this industry is the sector of accommodation, where all the indirect competitors of the hostels are placed. All the properties providing a place to sleep in exchange of a certain amount of money have to be included in the category of indirect competitors. The Hotels, Motels, Resorts, Apart-hotels, Boats, Camping and others are some examples of indirect competitors of the hostels. Inside this sector there is also the Local Accommodation that represent all the Villas, Apartments (that are represented mainly by Airbnb) and Hostels (in Diário da República, Decreto-Lei nº 128/2014 de 29 de Agosto).

All the companies that offer similar activities to the AKTION's properties are also considered as indirect competitors.

4.2. Types of Hostels

When it is made the competition analysis is important to understand that inside the Hostel business there are hostels that are higher threats and serve better as a term of comparison in matters of KPI's and Benchmarking than others. After the boom and consolidation of the hostel business in Portugal the hostels felt the necessity to differentiate and consequently specialize in different segments of the market. Nowadays is possible to categorize the hostels in Portugal in 8 different concepts: **Party Hostels** – These hostels are created to provide to the guests a party environment. They are usually oriented to younger-minded travellers and the hostels create and organize all types of activities and events (inside and outside the hostels), most of the times with alcohol involved. Requirements such as comfort, privacy, quietness and quality of facilities lose importance in this category (Ex: GSpot Party Hostel in Lisbon, Porto Spot Hostel and The Rising Cock Hostel in Lagos); **Family and Homely Hostels –** Designed to be comfortable and cosy, these hostels are smaller than the average and are designed to receive families and couples but also lonely travellers. The idea is to make the guests "feel at home rather at a paid accommodation" (hostelgeeks.com). In this type of hostels, in order to give the homely feeling, the owners or collaborators of the properties live there. The price is commonly fair. Comfort is very important, as well as it is to provide time and space for the guests to relax (Ex: Nice Way Sintra Palace in Sintra, Home Lisbon Hostel in Lisbon and Garden House Hostel in Porto); **Sports and Activities Hostels –** There is always something happening in this type of hostels. More than just accommodation, the Sports/Activities hostels stimulate the guests physically and psychologically. The location is crucial in this category, being always close to any area with a main activity associated with. These hostels are focused in adventurer people, who enjoy feeling the nature and don't want to be quiet. Everything (from the design to the lifestyle) in the hostel is related with the main activity and usually the prices charged are higher because include packages of accommodation + activities. In Portugal there is a type of activity-oriented hostel that is highlighting, the surfhouses (Ex: The Salty Pelican Hostel in Cascais and Surfivor Porto Surf Hostel in Porto); **Traditional Youth Budget Hostels –** The origin of the hostels come from this type. The receipt to build a real Traditional hostel is to combine the cheap prices with the social environment, where meeting new people, cultures and realities is the focus. The typical big dorms and huge common areas are a must. They are designed to receive big groups of student trips or Erasmus but also solo travellers. (Ex: Hub New Lisbon Hostel in Lisbon, Hans Brinker Hostel in Lisbon and Tattva Design Hostel in Porto); **Boutique Hostels –** These hostels arise from the necessity that the sector had to differentiate. With the increase of players in the market, some properties started to operate closer to the hotel sector. It is a type of hostel that provides extra comfort, luxury and privacy but that keeps the social environment and laid back staff. Although the prices charged are higher than the other types of hostels, it is still more affordable than common hotels. Simple facilities such as an improved breakfast, a swimming pool and king sized beds can be the key to do the shift from a common hostel to a luxury one (Ex: The Independent in Lisbon, Cascais Boutique Hostel in Cascais and Gallery Hostel in Porto); **Eco Hostels –** The Eco Hostels are "environmentally friendly and conscious of creating a low impact on the Earth". These hostels also offer low prices and the guests can save money and at the same time "save the Earth" (Ex: Urban Garden Hostel in Lisbon, Aalma Hostel in Sintra and Tribo da Praia Hostel in Baleal). (Anna & Matt, 2016)

4.3. Benchmarking with competition and international examples

With the fierce competition that is present in the Hostel Market it was really difficult to perform an accurate analysis. The most important KPI's (overnights, occupancy rate, average bed price and revenue per available bed) were impossible to obtain in an individual basis. However, it was possible to get some of these indicators from the market in general. In 2015, there was a supply of 1.450 properties, with a total amount of beds of 49,5 thousand beds. The region of Lisbon accounts for 24,5% of these beds, while the North and the Centre of the country represent 21% and 20,3% respectively. The local accommodation sector received 2,3 million guests traduced in a total of 5,3 million overnights. The average number of nights per guest in each unit was 2,27. The average occupancy rate was 32,2%, with Lisbon having the highest performance regarding this indicator (44,5%) followed by 35,1% in the Algarve region and 34,9% in Madeira. In 2015, the average revenue per bed was 19,4€. (INE, 2015). The benchmarking study was divided in the two brands.

Regarding the HUB brand there were taken in consideration the major players in each of the locations in study (Costa da Caparica, Évora and Carcavelos). As it can be seen in *Appendixes 3,4 and 5* the variables studied were location, number of brand's units, number of beds, average beds occupied, average price per bed, average occupancy rate and average ranking in the reservation channels. The average occupancy rate was taken from the data provided by Instituto Nacional de Estatística of each region. All the other indicators were taken from the average occupancy rate or from the observation of their own websites and the reservation channels.

Costa da Caparica *(Appendix 3)*: There are 9 hostels operating in the market. The average number of beds per unit is 27, equalling a total of 239 beds. The average price offered by the hostels is 29€, that can be explained by the fact that a simple double room makes a big difference in the average of small properties as the ones in Costa da Caparica. The average ranking of these units in the reservation channels is 8,85. The highest score is 9,6 and it is achieved by Casa Lucas (Kuta Beach was not considered since it just has 1 review on Tripadvisor). This hostel fits in the Boutique style, it has swimming pool, snooker and a wider variety of double rooms. According to Booking.com the best categories are cleaning and staff, while the worst is the breakfast. The lowest ranking in Costa da Caparica is achieved by Surf in Caparica, with a score of 7,4. In booking.com the evaluations are normal (8,8) but in Tripadvisor this property achieves a score of 6, which can be explained because it has just 1 review. The best category in Surf in Caparica is the Location.

Apart from the hostels, and taking into account that there is also the possibility to have has as target the students of NOVA at Monte da Caparica, there were also analysed the rental of apartments by individual landlords and the residence provided by the University. The average price for rooms rented by individual landlords is 272,28€ (there were considered the websites OLX, Idealista, Imovirtual, Arrenda and Uniplaces). The price charged by the Residence Fraústo da Silva is 203,75€, however, the capacity of the residence sticks to Erasmus students and people with economic difficulties.

Évora *(Appendix 4)*: There are also 9 hostels in Évora, with an average of 25 beds. Everything summed, there are 222 beds in the hostel market and an average price per bed of 24,27€. The average ranking of the hostels in Évora is 8,79. The hostel that is best ranked is Évora Terrace Hostel with a ranking of 9,49. This hostel is focused on the Homely Hostels style and it is located exactly in the centre of Évora. Location and Staff are the best categories and the breakfast (score of 7) is the worst. The worst hostel operating in Évora in terms of ranking is Burgos Hostel. The hostel is well located but the facilities, comfort (ranked with 6,7) and breakfast (4,6) are bad according to the guests. This ranking is even more worrying if we take into consideration that it has over 600 reviews. The supply of beds in residences is very high and the prices are very affordable. The students can choose among 7 residences spread through the city and pay, in every situation, 129,12€. However, this value is paid in completely different situations. The students pay this value if they stay in a double room with a person from the same gender but also if they stay in a mix dorm of 4 people. This is why some residences have a lot of demand and others are empty. Regarding the particular landlords, the average price charged in Évora for individual rooms is 182,65€.

Carcavelos *(Appendix 5)*: Around Carcavelos (Carcavelos, Cascais and Oeiras) there are 10 hostels. The average beds per unit are 29 beds, totalling 291 beds. The average price is 31,78€, higher than the averages in the other locations, which can be explained by the closeness to Lisbon. The average ranking is a bit lower than in the other cities analysed, being equal to 8,35. The best property operating (according to the reservation channels and guests' opinions) is the Salty Pelican Hostel, a brand new hostel, turned to the activities/sports style. All its focus in on surf and the fact that is a small unit gives the opportunity to the staff to "pay attention to all the details and to everything the guests need". The ranking obtained by this unit is 9,65. The number of properties with low rankings is higher than in other locations. Hi – Oeiras Youth Hostel has a score of 7, Cascais Home Sweet Lisbon of 7,85 and Wanderlust Hostel of 7,90. However, there is still one ranking that is worst, 6,38 attributed to Help Yourself Hostel. Cleaning, Facilities and Comfort are categories where the 4 units have the lowest scores. On the other hand, there is the rental of rooms by individual and private landlords, where the supply is high. The average prices in this market are 319,91€.

Franchising *(Appendix 6)*: The locations to the franchise are completely dependent on the opportunities that arise. For that reason, it was impossible to perform a benchmarking based on locations. On the other hand, it made sense to analyse the chains of hostels around the world that could serve as an example to

HUB,S.A.'s future operations. Following this, the benchmarking was performed considering the brands that have a system of franchise implemented. In the international context, were identified 14 chains of hostels that operate in a franchise basis. After all the brands being analysed it was concluded that the average initial investment required is 84.500 and the initial franchise fee is equal to 25.000€. Also, it can be seen that in average the royalties to be paid by the franchisee to the franchisor is 5% and the advertisement fees are 3%. The average payback period is 25 months.

4.4. SWOT analysis and Competitive Advantage.

The swot analysis can be seen in the *appendix 7*, where the HUB,S.A.'s brands are compared with the typical hostels operating in the market. From all the factors that are mentioned it is important to highlight some from each category. The biggest opportunity for this business has to do with the fast and constant growth that is taking place in the Tourism in Portugal and the recent trend that is the search for adventure and adrenaline in the holidays. The large amount of competitors constitutes the main threat. The biggest strength of Hostels Hub it is related with the professionalized and experienced people that work in the management systems. On the other side, the fact of each unit being larger than the average in Portugal makes more difficult to the staff to interact with the guests and pay attention to the specific needs of each one. All this scenario constitutes a temporary competitive advantage to HUB,S.A.

5. Strategy

5.1. Man – Human Resources:

The manpower is one of the crucial factors of differentiation in the HUB,S.A.'s strategy. One of the most worrying factors about the hostel market in general is that the structures are not professionalized. Due to the low capital available, the Hostels tend to recruit people not qualified for the tasks involved and sometimes, trust in voluntaries to be responsible for its daily operations. In these situations, the potential of the hostels have is not completely fulfilled. This is the reason why the strategy of HUB,S.A. is based on having the "right person at the right place". The creation of a social media department, a commercial department and a reservations department with the respective qualified people working there, is the main of Hostels Hub regarding manpower. All these departments are central, general and used by all the units belonging both to AKTION and HUB. Taking these responsibilities and tasks from the people in the Front Office is half-way to an improved service provided by the receptionists, which will be more sensitive to the guests' needs and even more willing to help and socialize, creating the type of environment required at a hostel. Furthermore, Hostels Hub count on the experience of Administrators and Managers with decades of experience in the market, which will always be very important to take some of the most difficult and crucial decisions.

5.2. Material and Machines:

There are a few but essential general requirements about materials and machines that each unit needs. Regarding the machines it was identified that each unit needs simple machines such as computers with internet to the guests, computers to the receptionists, fridges, efficient system of fire alarm and efficient system of keys to the rooms. Apart from the machines needed in the daily operations, there are also machines that are crucial to develop and maintain the image of the HUB and AKTION hostels. The pins that are offered to the guests during the stay and customized according to the stay that they had, are a highly appreciated factor that HUB,S.A. wants to keep, creating with this a cool brand image. The materials needed are very basic and are not more than tools for maintenance and cleaning products. Furthermore, each unit will have to acquire the specific materials and machines necessary to accurately practice and take advantage of the activities provided by each property. This rule is, obviously, more applied to the AKTION brand, where the activities are much more present (Ex: acquire boards and suits to surf).

5.3. Money:

It doesn't take part of Hostels Hub's business plan to be financed by banks and incur in debts. All the finance is done through private investors belonging to the strict networking of the company. The priority is to be financed always by the same investors in order to create a simple structure. Regarding the AKTION brand, the financing of the project depends on the managers' will, either being financed by private investors or by the banks. However, the financial situation and requirements will always be analysed together between the franchisor and the franchisee.

5.4. Method:

The method is what supports this Business Plan. Throughout the following years, the procedures, systems, policies and plans are what will differentiate the Hostels Hub's structure from all the other around the world. The method applied in one unit will be exactly the same as any other, either belonging to the HUB brand or the AKTION brand. The company already has a fully developed and tested system of procedures, where all the collaborators can base their daily tasks. These procedures are summarized in a set of manuals that are given and explained to the new units. At *appendix 8* it is possible to see how a manual will look like. Some examples of manuals that will be offered are: Reception Manual, Cleaning and Laundry Procedures Manual, Bar Manual, Breakfast Manual, Management Support Manual, Brand Image Manual. Motivation is also key to the success of the business and the collaborators will always be encouraged to participate in the construction and improvements of procedures and policies of the hostel.

5.5. Measurement:

There are two different branches of measurement in Hostels Hub. The first has to do with customer satisfaction. In a market where the competition is fierce and the alternatives to the potential customers are huge, the guests are the most important and powerful influencers in the business. For this reason, there will be established some measurements regarding the ranking achieved by the different hostels in the various reviews channels' where the company is (Booking.com, Hostelworld.com, Tripadvisor and Facebook). From these four channels, there will be taken an average and this number will be used to adopt the consequent measures. The required base value to this average is 9 out of 10, assuming a range between 8,5 and 9,5, out of 10. The score obtained is evaluated every 6 months and the rules are the following: - If a unit obtains a score over 9,5 receives a pre-established extra incentive that is divided 50%/50% between the Management and the Employees. This incentive is unlocked just if the property has more than 100 reviews in each channel.; - If a property gets a score between 8,0 and 8,5, it is obliged to receive an audit and all the possible scrutiny of the Administration of Hostels Hub in order to understand what is wrong. All the costs of this procedure are supported by the unit under scrutiny; - If a unit gets a score under 8 points the contract can be ceased or the management shall be ceded to the main Administration for the following 6 months.

The other branch of measurement is related to the financial results. The financial projections and planning are prepared, presented and discussed every 3 months: - If the unit gets actual results 50% higher than the projections, the Administration offers a pre-established extra incentive to that unit. This incentive is used how the Management decides; - If the property gets actual results 50% lower than the projections, the Administration of HUB, S.A. takes control on the Management of the unit over the following 6 months.

6. Marketing

6.1. Survey's Results

In order to better understand the potential of HUB's vision and strategy to the three locations that were studied, it was conducted a survey *(Appendix 9)* directed to students that had to leave their homes and look for a place to live in order to study at the University. There were 286 answers to the survey. From these, 28 people never had to look for a place to live so they do not have relevancy for the study. 61% of people that answered to the survey are women and 39% are men. People that answered to the survey came from all over the country and 90% is aged between 18 years old and 25 years old. Although it is difficult to conclude something from this research, there can be taken some interesting clues (some of them have already be mentioned in some parts of the Business Plan): 44% of the respondents had known about the place where they currently live through rental websites such as olx, imovirtual, remax and others. All the others sources are important with the exception of short term rental websites that accounts for 3% of the answers; - Price and Comfort are the most important criteria when choosing where to live (2,33/10 and 2,90/10 respectively). Cleaning of common areas and Be with other students/extra services are the less important criteria (7,61/10 and 7,44/10 respectively); - 81% of the respondents are satisfied or very satisfied with the place where they currently live; - The total average price charged for student's accommodation is 254,37€ and the average price for individual private rooms is 236,41€. The average price charged for students from NOVA FCT is 211€ and 186,33€ for students from Universidade de Évora.

6.2. STP

The most important variables for the segmentation of the Hostel Market are from Demographic and Psychographic aspects. In the demographic category it makes sense to analyse deeply the age and the income of the consumers, while in psychographic category it makes sense to analyse variables such as social life, life style and personality. Based on these different variables it was possible to define several segments that have relevancy in the definition of the strategy in this market. So, the market can be divided into: - Corporate: Segment characterized by people that are looking for quiet places, respectful, with high social status and income. Low interaction with guests and staff; - Youth Groups: usually they come in trips organized by students' unions or Erasmus associations. They just want to have party and the respect towards the hostel's rules and the other guests sometimes is absent. The time spent in the hostel is reduced. Most of them are aged between 18 and 25 years old. ; - Single Tourists: Most of them are known as backpackers. Very willing to live all the experiences that the destination has to offer. Characterized by having low income. The social life and interaction with other guests is very intense. Usually they look for dormitories. - Families: The most relevant decision factor to this segment is the price. Big families or families from medium social class are the typical guests of the hostels. Very respectful towards the other guests and Hostel's rules. Usually look for double rooms or private dormitories; - Couples: Usually looking for double rooms but they don't have the budget to stay at a hotel. Privacy and Comfort are more valued than at the other segments; - Students: They look for a long term stay and are price sensitive. They care about the rules of the Hostel and have less contact with the hostel's staff and management. Just appeal to the staff in important situations.

By taking into account the strategy that the company wants to implement, it is also important to differentiate between: - Nature lovers: Like adventure, adrenaline and new experiences; City lovers: The traditional tourist. Looking for cultural activities, nightlife and social events. These two segments can perfectly be combined with the others mentioned above. HUB decided to target Youth groups, Backpackers and Students, and AKTION nature and sport lovers from the same segments.

6.3. Placement

There are two ways of selling the service to the clients. The first is through internal investment, a direct channel that is traduced in the HUB brand. The indirect way of developing the business results in the AKTION brand, an indirect channel that is just composed by 1 degree in the hierarchy. The location is key for the success of the business. Regarding the AKTION brand, the location has to be chosen in accordance with the type of activities that the unit wants to provide. To serve as example, if a single unit wants to base its activities in surf it just makes sense to be located close to the beach. Ideally, it should be possible to arrive to the area of activities by foot and in less than 20 minutes. Keeping everything constant, the less the distance between the area of activities and the hostel the better.

Regarding the three units that are being analyzed to the HUB brand, factors such as the closeness to the University and access to transports (taken from the survey) are also factors to considerate when choosing where the units should be located.

6.4. Promotion

Internet has a huge importance in the promotion of the business. Both brands have strong presence on Facebook and Instagram with daily posts. These posts are used to engage the customers in the daily life of the Hostels and feel the brand as theirs. Posts with pictures of guests are also common and all of them are presented to the users in an informal, relaxed and funny way. All the promotional activity is based in standard requisites that are used to create a global brand image and identity, recognized by the entire market. Ideally, the social media and internet activity is developed and put in place by the social media and commercial departments. However, one may find specific situations when it is required to the employees of a specific unit to collaborate in this aspect. In the *Appendixes 10 and 11* there can be seen how facebook of the two brands looks like. All the other reservation and reviews channels are important to promote the brand, especially if it is taken into account that the customers are the most important influencers in the business. From all the partners in the field, it is important to highlight Hostelworld.com, a reservation channel that is 100% turned to the target segment and that has the speech completely aligned with HUB and AKTION strategy. In the last year, many promotional campaigns were done in cooperation between Hub New Lisbon Hostel and Hostelword.com. The success was unquestionable and traduced in more reservations to the Hostel.

Furthermore, it is also important to take into account the B2B actions, focused on Travel Agencies, Touristic Operators, Student Unions, Erasmus Student Network's, etc. Every 3 months, elements from the commercial departments will travel in order to establish new partnerships and show the different options that the chain offers. The tourism fairs are very attractive places to establish these partnerships and a big priority in the commercial department's strategy.

6.5. Product

The HUB,S.A. bases its offer on the quality and reliability associated to the brand towards not only the guests but also the suppliers and different partners. The core service is the offer of 75 to 200 beds per unit to the guests, being in private rooms or dormitories. In addition to that, there are facilitating services such as 24 hours reception, a general reservation centre and front desk staff. To support the service, there are some requirements that should be common to every unit associated to HUB,S.A. A good wi-fi service throughout the entire hostel, a bar, vending machine/food selling, laundry, kitchen, private showers, secure lockers and multilingual staff are some of these supporting products. All the extras associated to the service are the factors that influence when the general quality of the service is good and the customer is in the last phase of decision. Events inside the hostel, sports' activities, good lounges and common areas, guided tours and shuttles from main bus/train stations and airport are some of the basic requirements regarding this category. The name HUB was chosen to transmit the message that each hostel is a place where people can gather and socialize. The AKTION was chosen to transmit the feeling of adventure, not being quiet but look for the "aktion" happening in each different location. The design of both brands has to be relaxed and follow some specific requirements which are presented in *appendixes 12 and 13*.

6.6. Price

The strategy is based in the Competition Pricing, where the prices charged by the company are in line with the average of the prices charged by the other competitors in the market. In average, the units of Hostels Hub have more beds than the competitors'. This means that the fixed costs (that are considerable) will be diluted by the amount of beds, and as such, each bed will represent a higher profit to Hostels Hub in comparison with the competitors. The prices are updated whenever necessary and change considerably between the low and high season. According to the prices charged by the competition it can be used the following range of prices to each typology: Dormitory of 12 people – [10€;14€]; Dormitory of 8 people – [14€;18€]; Dormitory of 6 people – [16€;20€]; Dormitory of 4 people – [18€;22€]; Double private room – [50€;75€]. The prices can also vary depending on the existence or not of bathroom inside the room. After the analysis of the survey it was also possible to arrive to the prices charged to students that rent the room in a monthly basis. These prices will be a bit above the average since the conditions offered by the Hostel are considered to be above most of the rooms that are available in the market for rental. The price charged depends on the location of the property and regarding the three that were studied it will be: Costa da Caparica – 250€; Évora – 250€;

Carcavelos – 325€. These are the prices charged in the low season. For the rooms that in the high season remain to be rented in a monthly basis the price increases 100€.

The prices charged by AKTION will be different from the competitors'. The majority of the accommodation units that are turned to sports charge special prices to packages of at least 3 days. With this initiative they lose the guests that would be interested in practice those specific activities but are just able to stay 1 or 2 nights. The AKTION brand provides special offers of 15% discount in the entire package (stay+activity) no matter the duration of the stay. Ex: Considering that the average price per night in a 8-mix dorm is 16€ and the average price of a surf class is 30€ a guest that would want to stay 1 night and have 1 surf class would have to pay 39€ instead of 46€. This measure will capture a large part of the market that just can stay 1/2 nights in each place and it will solve one of the biggest problems of the company, which is the reduced amount of sales regarding the activities.

7. Financials *(Appendix 14)*

7.1.Revenues

The revenues of HUB,S.A. come from the two brands of the business, AKTION and HUB. In the HUB brand there are three sources of revenues: the accommodation, the bar and the activities. The values presented in the next sections are all yearly based. - **Accommodation:** To each of the three locations analysed in this Business Plan, there were made projections with and without focus on Student Housing. In order to obtain the revenues of the accommodation, occupancy rates had to be assumed. Given a fixed number of rooms it was considered that the occupancy rates of dormitories would be the same with or without student housing. With student housing, the double rooms for typical guests assume higher occupancy rates since there are less rooms to be occupied. The double rooms to be rented in a monthly basis will have an occupancy rate of 100%. All the occupancy rates were assumed in accordance with the experience in the sector. In Évora, the total revenues for the accommodation will be 387.451€ with Student Housing and 398.824€ without Student Housing. To the other two locations

(Costa da Caparica and Carcavelos) there were made exactly the same assumptions. To Costa da Caparica, the revenues obtained with Student Housing were 337.665€ and 315.740€ without Student Housing. Regarding Carcavelos, the revenues of the accommodation with and without student housing were 489.914€ and 490.556€ respectively; **Bar:** To calculate these revenues it was assumed that each guest spends 1,5€ at the bar, value that came from the first year of operations of the existing unit, Hub New Lisbon Hostel. Here, the revenues do not depend on the existence of Student Housing. Costa da Caparica will have revenues of 20.654€. The other units of Évora and Carcavelos will achieve an amount of 24.229€ and 40.715€ respectively (in the last one it was assumed a revenue of 2€ per guest); **Activities:** The activities are a source of revenue that won't have much weight in HUB's revenues. The amount assumed for the money spent per guest differed from location to location. In Évora, each guest will spend a total of 0,5€, totalling 8.076€ in revenues. To Costa da Caparica and Carcavelos de amount spent per guest is 1,5€, which gives a total of 20.654€ to Costa da Caparica and 30.535€ to Carcavelos

The revenues of AKTION come from the performance of the franchisee. In order to predict the amount of revenues it was made the financial projection of a typical unit of franchise. In accordance with the projections, the revenues per unit to HUB,S.A. will be 15.417€ coming from royalties, 3.083€ from the advertisement rate and 1.800€ from given support. At the end, just the amount from the royalties enters in the calculations of the profit.

7.2.Costs

The main costs with influence in the profit of HUB,S.A. as AKTION come from the support that is given to the franchisee and the legal costs at beginning of the contract. All the other incurred costs are supported by the franchisee (Ex: Cost of social media advertisement is supported by the revenues of the advertisement rate). At the end of the year this amount will be close to 2.000€. From the HUB concept there are other costs to considerate such as: Direct Costs - commissions, laundry (1€ per guest), cleaning (0,75€ per guest), salaries (4 workers and 1 manager), bar expenses (1€ per guest) and breakfast

(2,5€ per guest); Indirect Costs – Marketing, Maintenance, Electricity and gas, water, insurances and rents. Total costs are 290.976€ to Costa da Caparica, 240.776€ to Évora and 344.317€ to Carcavelos

7.3. Important indicators:

To consider the entire expansion Business Plan of HUB,S.A. to the following 10 years it is necessary to add the revenues of the two different concepts. Assuming that HUB will keep the three considered units during the study and will open in the following 10 years a total 10 units of AKTION franchise, the total profit of the entire project is 4.439.023€. Considering an investment of 567.000€ this represents an ROI of 12,3% and a Payback time of 1 year and 1 month.

8. Limitations and Conclusion:

After analysing all the important variables and projecting the future, Hostels HUB and AKTION should rely on the thought strategy. Tourism has never grown so fast and Portugal seems to start now its economic recovery. It is now the time to take advantage of the positivism created around Portugal and follow and implement the plans had in mind for years when feasible. Looking to the projections, it is unquestionable that the franchise method applied to the AKTION will be a good idea. On the other side, it might be questionable the decision to go for Student Housing in Costa da Caparica, Carcavelos and Évora since the projections with and without student housing have more or less the same return. However, the risk implied in the Student Housing is much lower than in the other option. It can be taken for granted that there are factors (mostly coming from the conducted survey and some of the values that were assumed) that limit the accuracy of this Business Plan but it is unquestionable that it represents a feasible and advisable project to the company.

References

Aguiar, N. (2 de Março de 2016). *Jornal de Negócios*. Obtido de Jornal de Negócios: http://www.jornaldenegocios.pt/empresas/turismo---lazer/detalhe/cinco-graficos-que-mostram-a-evolucao-do-turismo-em-portugal

Anna, & Matt. (2016). *Hostel Geeks*. Retrieved from Hostel Geeks: http://hostelgeeks.com/types-of-hostels-boutique-party-5-star-hostels/2/

Assembleia da República. (29, Agosto 2014). Decreto-lei 148/2014. *Diário da República*, pp. 4570-4577.

Bertschi, C., & Douglass, H. (2014). *In Focus: The Hostel and Budget Traveller Market In Europe - Gaining Momentum.* London: HVS.

Carvalhinho, L., Bento, T., & Rosa, P. (2013, May). Desporto, Ambiente e Turismo Ativo: Estado da Arte e Relações Emergentes. *Unidade de Investigação do Instituto Politécnico de Santarém*.

Costa, A. J. (2016). O desporto no pódio do turismo: a crescente importância do turismo desportivo. *Instituto Nacional de Turismo*, 48-53.

Craveiro, P. (s.d.). Aktion Hostels. *Aktion Hostels.* HUB,S.A., Lisboa.

Daszkowski, D. (2016, September 17). *How much does a franchise cost?* Retrieved from The balance: https://www.thebalance.com

Goldberg, E. (n.d.). *Franchising*. Retrieved from Franchising: http://www.franchising.com/

Gyr, U. (3, Dezembro 2010). *The History of Tourism: Structures on the Path to Modernity*. Retrieved from European History Online: http://ieg-ego.eu/

pmelink. (n.d.). *Como criar uma rede de franchising*. Retrieved from pmelink: http://www.pmelink.pt/

Público. (2016, Setembro 12). *Taxas de ocupação das Pousadas da Juventude aumentam 14%*. Retrieved from Publico: https://www.publico.pt/2016/09/12/economia/noticia/taxas-de-ocupacao-das-pousadas-da-juventude-aumentam-14-1743916

Savills. (2013). *European Tourist Hostel Report.* London: Savills.

Seid, M. H. (2011). Pricing Of Franchises: How to Charge for Fees, Area Development Fees, etc. Establishing Service and Continuing Other Fees. *MSA Worldwide*. Retrieved from MSA Worldwide.

Siebert, M. (2005, March 28). *What Price Franchise?* Retrieved from Entrepreneus: www.entrepreneur.com

Silva, A. R. (23 de Setembro de 2015). *Público*. Obtido de Público: https://www.publico.pt/2015/09/23/economia/noticia/maioria-das-pousadas-da-juventude-ficou-por-concessionar-1708794

Sousa, C. C. (2012). *Portugal como destino de ondas.* Porto: Even Point.

Turismo de Portugal. (2015). *Turismo 2020 - 5 princípios para uma ambição.*

United Nations of World Tourism Organization. (2016). *Tourism Highlights.* Madrid: UNWTO.

Vandegrift, S. E. (2016). *Fransource Internation*. Obtido de Fransource: http://www.fransource.com/determining-the-initial-franchise-fee/

Vieira, N. D. (2006). *Turismo Activo em Portugal - Um retrato do sector.* Porto: Faculdade de Desporto da Universidade do Porto.